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23 January 1959

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MEMORANDUM FOR THE DIRECTOR

SUBJECT: TRENDS IN THE PHILIPPINES*

25X6 1. Developments in recent months have generally borne out the rather gloomy assessment of the Philippines situation contained in our most recent estimate, SNIE 66-58, "The Outlook for the Philippine Republic," approved 27 May 1958. This estimate emphasized the atmosphere [REDACTED] under the Garcia administration and the consequent loss of public confidence in the government. The estimate also highlighted the growing nationalist sentiment in the country, the likelihood of increased pressures for a more independent foreign policy, and the possibility that Philippine nationalism might take on an increasingly anti-American coloration if outstanding US-Philippine issues were not successfully settled.

2. The political situation has continued to degenerate. The government, under Garcia's administration, has declined in efficiency

* This memorandum has been coordinated with the USIB Representatives.

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and has failed to establish a rapport with the general public. The trust and confidence which Magsaysay had generated among the common people are now largely replaced by cynicism and drift. The Garcia administration is now generally discredited in the public mind.

3. The economic situation has failed to improve, and in some respects has worsened. During 1958, the rate of growth in both the agricultural and industrial sectors of the economy appears to have declined to a level barely exceeding the rapid rate of population growth of about 2.9 percent. The rise in world metals prices and the favorable outlook for crop yields in 1959 forecast an improvement in this situation. However, the administration has yet to resolve the fundamental balance of payments problems created by the difference between its stated economic expansion goals and the ability of the Philippines to finance from internal or external sources the level of capital goods and raw materials necessary to implement these goals. The Philippine economy suffers from an immediate shortage of foreign exchange reserves and mounting inflationary pressures. The Garcia administration has taken some steps to cut the budget deficit, curtail imports, and control credit. However, it has lacked the political strength and determination to press this "austerity" program. Economic controls, and the general inefficiency of the government's administration of them, have increased the incentive for corruption, raised the

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profitability of imports and attracted investment to import ventures rather than to foreign-exchange earning export industries. The Garcia administration continues to oppose general programs of devaluation and decontrol. Instead, it has indicated its intention to propose to the forthcoming session of the Philippine Congress a foreign exchange tax (which amounts to partial devaluation) to discourage imports and raise revenues.

4. The political opposition to the Garcia administration is still badly fragmented. However, the Liberal and Progressive Parties, led by Vice President Magapagal and by Manahan, are actively negotiating for a merger or a coalition. Some members of Garcia's Nacionalista Party, conscious of the weakness of the government, have shown interest in associating themselves with the opposition parties. If these negotiations are successful, opposition prospects for the Senatorial and local elections scheduled for the fall of 1959 and for the Presidential elections in 1961 will be greatly improved.

5. Faced with growing opposition and a lack of public support, Garcia and his followers have become increasingly sensitive to real or imagined threats to their positions. In the fall of 1958, various political groups capitalized on this sensitivity to advance their own

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positions by spreading rumors of a military coup to be led by Secretary of National Defense, General Vargas, who seemed, at least to some Philippine politicians, to be attempting to follow in the footsteps of Maguaysay. The coup rumors undoubtedly weakened the position and influence of Vargas. Although recent reports have stated that Garcia is now convinced that the rumors were false and that he would like to retain Vargas, the pressures that have already been generated for this removal may prevail. Furthermore, the affair damaged the prestige of the military in general and enhanced the possibility that the Department of Defense and the armed forces may become subject to political manipulation.

6. There is evidence of increased covert political activity on the part of the Philippine Communist Party to foster dissatisfaction with existing ties between the Philippines and the United States. Although it remains organizationally and numerically weak, the Philippine Communist Party, through astute exploitation of Philippine nationalist sentiment, appears to have increased its influence in intellectual, student, and labor circles. An alarming indication of Communist ability to exploit issues in their own interest are reports of a significant Communist role in spreading the military coup rumors which weakened the position of the anti-Communist military leaders.

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7. In seeking issues to strengthen its position and to gain public support the Garcia administration has turned increasingly to growing Philippine nationalism and to US-Philippine relations. Administration spokesmen, and others as well, have become increasingly vocal and insistent in publicly expounding real and imagined Philippine grievances against the US. Although many of these grievances are based upon genuine nationalist convictions, they are being inflated for domestic political purposes.

8. There is a general feeling in the Philippines that the country has not received as generous economic aid as it deserves as a loyal friend and ally of the US. Garcia undoubtedly hoped to obtain large-scale financial assistance during his visit to the US in June 1958. Although he was promised favorable consideration of development loans and credits of \$125 million, this amount was considerably less than he had believed he would get and less than the administration had led the Philippine people to expect. Moreover, these credits, some of which are still being negotiated, will not provide the exchange assistance necessary to afford immediate relief to the critical balance of payments situation. The Philippine Government has requested that an IMF survey be made in order to lay the ground-work for further external assistance in the form of stabilization loans.

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9. Another grievance concerns the amount and type of US military assistance, which the Philippines believes does not meet its minimum security needs. Both military and civilian leaders have publicly expressed their disappointment that their demands for greatly increased military assistance following the Taiwan Strait crisis have not been met.

10. Important Philippine political and commercial leaders feel that the provisions of the 1955 Revised Trade Agreement, particularly those granting US citizens equal rights with Philippine citizens in the development of the country's natural resources, fail to protect the paramount economic interests of Philippine nationals. In part this is a logical consequence of increasingly vocal economic nationalism and the growing desire, especially on the part of business and industrial leaders, to maximize Philippine ownership and management of the economy.

11. Another grievance stems from an increasing concern that certain provisions of the Military Bases Agreement, particularly those concerning criminal jurisdiction, are an infringement of Philippine sovereignty. Philippine leaders argue that the existing agreement is, in important respects, less favorable than provisions in US similar arrangements with other countries. The present

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preliminary talks, which began in November 1958, are stalemated on the question of criminal jurisdiction, which caused the breakdown of the 1956 negotiations. Although the US has indicated its willingness to revise the Agreement in order accord the Philippines equality of treatment with other US allies, Philippine demands have now been raised to include additional concessions on the basis of the "special relationship" between the two countries.

12. The Garcia administration has deliberately magnified these grievances in hopes of exploiting nationalistic emotions. Because of its declining political strength, the administration is now unwilling or unable to take a strong stand against pressures for further agitation of these issues.

13. The outlook for the Philippine Government over the next year or so is for continuing ineffectiveness under the Garcia administration. Public dissatisfaction will probably continue to grow, but we believe it will not lead to social disorder or widespread antiadministration demonstrations. The political situation will probably become increasingly unstable as individuals and groups within the Nacionalista Party, as well as the opposition parties, maneuver for position. The Liberal and Progressive

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Parties will probably agree to some form of cooperation before the Senatorial and local elections next fall, with the possible adherence of some Nacionalista politicians. Such a combination would probably win a sufficient number of key elections to greatly enhance the prestige and momentum of the opposition. Although the economic situation may improve in some respects, the shortage of foreign exchange and rising living costs will probably continue as major problems. We do not believe that the Garcia administration will have the determination or the political power to take effective corrective measures.

14. Given this generally dismal outlook on the domestic scene, we believe that the present clamor over Philippine grievances against the US will probably increase. It is likely that the Garcia administration may feel forced to make formal and public representations to the US Government for redress of these grievances. The government will probably expand its contacts with other non-Communist nations with the intent of improving its general international status and demonstrating a more independent foreign policy and decreased dependence upon the US.

15. There will undoubtedly be increasing public discussion of neutralism and of the hazards and problems of mutual security.

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Although much of the present and recent conduct of the Philippine Government and of special interest groups can be explained as a maneuver to put pressure on the US for increased financial support, there is the possibility that the maneuver may get out of hand, forcing the government to take a more adamant position than it had intended, because of the emotional tendencies of many Philippine leaders and the growth of Philippine nationalism, especially in the urban centers and among intellectuals, youth, businessmen, and labor. Communist activity will probably increase and be directed primarily toward stimulating the growth of anticolonial and anti-American ingredients in Philippine nationalism.

16. Although we believe that the course of US-Philippine relations over the next year or so will be rough indeed, we do not believe that the Philippines will leave, or alter the basic framework of, the over-all alliance with the US. Economic, political, military, and historic ties are still strong. Moreover, there is still considerable confidence and trust in the US in the Philippine countryside and among the general voting public. We continue to believe it unlikely that the Philippines will take action which would seriously jeopardize the current status and operations of US military bases over the next year or so. However, the bases will continue to be used

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as a lever in negotiating other issues with the US. If over a period of time, there is no satisfactory resolution of the Philippine grievances, it is possible that some steps may be taken detrimental to effective US use of the bases.

FOR THE BOARD OF NATIONAL ESTIMATES:



Acting Assistant Director
National Estimates

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